

Q How long will the audit take?

A Most audits can be completed in 4 - 10 hours. Some large employer audits may take longer. In some circumstances, audits may require a return visit by the auditor.

Q Where will the audit take place?

A Generally, the auditor will try to schedule the audit at the site where the records are located or are readily available. This may be your place of business or the office of your accountant or attorney. Regardless of where the audit is conducted, the auditor may visit the place of business to verify the business operation.

Q Must I be available at the time of the audit?

A You may designate an authorized individual to provide the records to the auditor. However, this person must have the knowledge to answer any questions the auditor may have regarding the records, and be able to act on your behalf. This allows for less confusion and misunderstanding regarding the audit results. If the designated person is your representative, such as an accountant or attorney, please make sure that they have your power-of-attorney to discuss your tax matters.

Q What if I don't have any employees?

A The records may still have to be reviewed to verify this fact.

Q When will I be advised of the audit results?

A Upon completion of the full audit, the auditor will discuss the audit results with you or your designated representative in a post-audit conference.

Q What happens if I owe additional taxes? What if I can't pay them?

A The auditor will request that any balance due, including interest and penalties, if applicable, be paid upon completion of the audit. If you are unable to pay the full amount due, the auditor will discuss with you the procedures for obtaining a payment arrangement with a tax team.

Q Will the taxes I pay to the Internal Revenue Service be affected by the audit?

A Possibly. Under certain circumstances, the Internal Revenue Service will be notified if you fail to report wages to the BW&UC. Additionally, the amount of credit for payment of your Federal 940 or FUTA may be affected.

Q If I appeal the results of the audit, does the interest on the additional tax due stop until the matter is resolved?

A No. The only way for interest to stop accruing is to pay the entire balance due, including interest, under protest. If a ruling is made in your favor, this money will be refunded to you.

We trust the above information has answered any questions or concerns you had regarding your upcoming audit by the BW&UC. If you have any further questions, contact the auditor at the telephone number shown on the Notice of Audit letter.

Jennifer M. Granholm, Governor
State of Michigan



David C. Hollister, Director

**BUREAU OF WORKERS' &
UNEMPLOYMENT COMPENSATION**

David A. Plawecki, Acting Director

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Q & A Regarding Tax Audits

Conducted by the
Bureau of Workers' &
Unemployment Compensation
(BW&UC)

Questions & Answers Regarding Tax Audits

Q Why was I selected for a BW&UC tax audit?

A The selection process for most BW&UC tax audits is based on a computer-generated, random sampling of Michigan employers.

Q Why does the BW&UC conduct audits?

A Section 9 of the Michigan Employment Security Act gives the Bureau the authority to audit the books and records of employers for the purpose of assuring compliance with the tax requirements of the Act, Bureau and Field Audit Section's policies and procedures. Employers are required, by law, to comply with an audit request from the Bureau, as they are legally required to comply with similar requests from other taxing agencies.

Q What is the purpose of the audit?

A The Bureau may audit for verification of wages, compliance with rulings issued by the Bureau, securing delinquent tax returns, the filing of bankruptcy or other circumstances that may arise in the normal course of business. The auditor will explain the purpose for the audit at the time the appointment is confirmed.

Q How will I know the person conducting the audit is from the BW&UC?

A The auditors are required to wear picture identification and carry a badge to identify that he/she is a BW&UC auditor. Employers or their representatives who still have concerns after viewing the auditor's credentials may contact the BW&UC's Field Audit Section at (313) 456-2170 for additional verification.

Q What records will be reviewed?

A The following books and records, if maintained, are to be made available to the BW&UC auditor:

- Forms UC 1020, Employer's Quarterly Tax Reports, and Forms UC 1017, Wage Detail Reports.
- Michigan Sales and Withholding Tax Reports, monthly, quarterly or annual return.
- Federal 940, Annual Federal Unemployment Tax Report.
- Federal 941's, Employer's Quarterly FICA & Withholding Tax Reports.
- Employer's Federal Income Tax Returns, Federal Schedule C for Sole Proprietors, Federal Form 1065 for Partnerships or Federal Form 1120/1120S for Corporations, LLCs and LLPs.
- Federal Forms W-2, Employee's Wage and Tax Statements, and Federal Forms W-3, Transmittal of Wage and Tax Statements (W-2 Summary).
- Federal Forms 1099 and Federal Forms 1096, Annual Summary and Transmittal of U.S. Information Returns (1099 Summary).
- Michigan Annual Corporation Return (corporations only).
- Employee's Individual Earnings Records, along with any monthly, quarterly and year-to-date summaries that are maintained regarding these records.
- Check Register and Cash Disbursement Records, both for general and payroll accounts.
- Receipts and Invoices for disbursements from the general account.
- Check stubs and/or canceled checks.
- General Ledger, General Journal and the list of accounts for these records.
- Petty cash records.
- Financial Statements (Profit and Loss, Income Statement, Balance Sheets, etc.).
- Master Vendor Files.
- Time cards.

Q Why is the auditor examining records other than the payroll records?

A The auditor reviews records other than the payroll records to trace the payment of wages from the source of original entry to the individual payroll records, and to look for taxable wages that may have been misclassified as non-taxable payments. Section 9 of the

MES Act gives the BW&UC the right to review any and all records maintained by the employer, to verify that all taxable wages have been properly reported.

Q What will the auditor be looking for?

A The auditor will be verifying that all wages taxable under BW&UC law were properly reported. The auditor will also be reviewing the records for casual and sub-contract labor, independent contract labor, certain sales commissions, corporate officer remuneration, etc., that may be taxable under the law.

Q What if we paid for the services of individuals whom we do not consider to be our employees? Will we have to pay tax on their earnings?

A What are taxable wages is the most frequent question arising from a BW&UC audit. Employers may consider an individual to be an independent contractor or sales agent, but the BW&UC may consider their earnings to be taxable wages, based on legal precedent and BW&UC policies and procedures. The auditor will apply all precedents and procedures prior to making an adjustment for these services, and will fully explain to you the rationale behind this decision. If you do not agree with the auditor's decision, you have the right to request that a written determination be made by the BW&UC. You further have the right to appeal this determination, first through the BW&UC's administrative appeal process, then through the court system.

Q How many years can the audit cover?

A In most cases, the audit will start with the most recent complete calendar year, or with the year(s) specified by the auditor on the Notice of Audit letter. If an adjustment to taxable wages is found in that year, previous or subsequent years may be audited. An audit can cover up to the three (3) previously completed calendar years, plus the current year. In cases of fraud, the three (3) year limit can be extended to six (6) years.

